SPENDING
AFFORDABILITY
COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2024

Baltimore County, Maryland

February 15, 2023

BALTIMORE COUNTY SPENDING AFFORDABILITY COMMITTEE

Honorable Julian E. Jones, Jr., Committee Chairman
Chairman, Baltimore County Council
Councilman, 4th District

Honorable Pat Young
Councilman, 1st District

Honorable David Marks
Councilman, 5th District

Edwin Crawford

Deborah Carter, CPA, Ed.D.

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SPENDING AFFORDABILITY COMMITTEE

February 15, 2023

Honorable Members of the Baltimore County Council
Honorable John A. Olszewski, Jr., County Executive

I am pleased to submit the report of the Spending Affordability Committee, reflecting the Committee's fiscal policy recommendations for Baltimore County for FY 2024.

For FY 2024, the Committee recommends a base spending guideline of $2,494,702,734, derived from a 5-year average personal income growth rate of 4.79% and FY 2023 base spending of $2,380,668,703. This guideline provides maximum spending growth of $114,034,031 over the FY 2023 budgeted base spending amount. The Committee further recommends that total debt outstanding not exceed 2.5% of FY 2024 estimated assessed property value and that debt service not exceed 9.5% of FY 2024 estimated General Fund revenues. Committee guidelines intend to limit spending such that growth in the cost of County government services does not exceed the growth in the County's economy. In making these recommendations, we emphasize that our guidelines do not represent targets, but rather maximum "should not exceed" levels. In the event that an adopted budget exceeds Committee guidelines, the County Council must provide an analysis of the over-the-guideline amount and explain the rationale for the decision.

Along with our spending guidelines, we strongly advise that the Administration adhere to our fiscal policy recommendations—particularly avoiding underfunding situations where the budget does not fully reflect the needed costs. This issue arose several years ago, before the current Administration took office, and has persisted, to a lesser extent, through the current fiscal year budget. I am encouraged at the Administration's commitment to providing a multi-year plan for funding retiree healthcare, and along with my colleagues, I urge the Administration to provide a similar plan for bringing all debt service costs into the budget rather than paying for a portion of them outside the budget using debt premium funds. Another area of concern is solid waste, with over-reliance on the County's landfill while the County works to secure new contracts to send waste to out-of-County disposal sites. It is of great importance for the County to provide the entire level of needed funding in the operating budget to cover these waste disposal costs.

This year, the Committee listened intently when the Administration stated that budget growth in excess of the preliminary guideline would be necessary in order to move forward with needed salary enhancements for the County's workforce. These enhancements will enable the County to attract and retain high quality staff, and they are affordable, based on revenue forecasts of both legislative and executive branch staff. Even if actual collections were to fall short of revenue forecasts, the County is strongly positioned with a healthy General Fund surplus. Further, the Committee's local economic consultant has predicted a mild recession that will result in personal income growth that continues to exceed 3.25%. When smoothed with actual personal income growth in recent years, such growth exceeds 4.35%, and when blended with County-level projections from another nationally known economic forecaster, the growth rate reaches the 4.79% utilized by the Committee in establishing this year's spending guideline. The Committee respectfully asks that the Administration submit detailed actuarial analysis along with the submitted budget to explain the fiscal impacts of all budgeted salary enhancements on the County's long-term liabilities and future annual contributions, in accordance with the requirements of Bill 17-22.

I would like to thank my fellow Committee members for their time and thoughtful participation in this year's process: Honorable David Marks, Honorable Pat Young, Mr. Edwin Crawford, and Dr. Deborah Carter. I would also like to thank Committee staff—County Auditor Lauren Smelkinson and Deputy Auditor Liz Irwin—and their Fiscal & Policy Analysis team for their dedicated work during this year's Committee process, as well as economic consultant Dr. Anirban Basu for his frank analysis of the County's economy.

As in the past, for FY 2024, we are hopeful that this report will receive careful consideration during the development and review of the County's operating and capital budgets.

Sincerely,

Julian E. Jones, Jr.
Chairman, Spending Affordability Committee
Chairman, Baltimore County Council
Councilman, 4th District, Baltimore County Council

INTRODUCTION

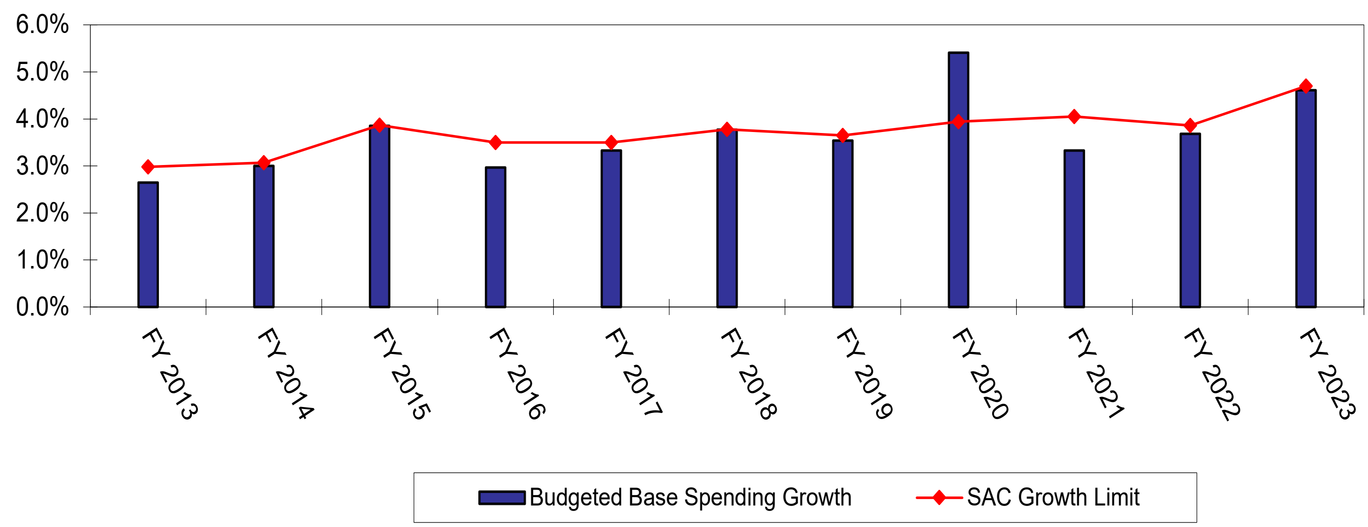
The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed the growth of the County's economy.

In March 1990, the Baltimore County Council enacted legislation (Bill 33-90) that established a spending affordability law for Baltimore County to ensure that growth in County spending does not exceed the rate of growth of the County's economy (Baltimore County Code, Sections 2-3-101 to 2-3-107). The law mandates that the Spending Affordability Committee make a recommendation each fiscal year on a level of County spending that is consistent with the County's economic growth. The Committee has implemented this law by establishing both spending and debt guidelines. The spending guideline is a recommendation for the maximum level of General Fund spending for ongoing purposes. The debt guidelines are based on two commonly utilized debt affordability indicators.

The Spending Affordability Committee submits its report by February 15 of each year in order to provide timely input into the budgeting process.

By law, the Spending Affordability Committee must submit its report to the County Council and County Executive by February 15 of each year. This reporting date allows the County Executive ample time to consider the Committee's recommendations before submitting the proposed budget to the County Council on or before April 16 of each year. The purpose of this report is to provide formal input to the County Council and the County Executive relative to the formulation of the County budget. Committee guidelines are intended to set recommended maximum amounts or growth levels for County spending that should not be exceeded (Figure 1); however, the law states that the County Council may exceed the Committee's recommendations if it provides a rationale for doing so. In FY 2020, the final adjusted budget exceeded the spending guideline by approximately $29.4 million; the County Council justified its decision to exceed Committee recommendations based on the County's extraordinary operational and infrastructure needs, paired with the establishment of new and enhanced revenue streams. Actual expenditures for FY 2020 fell under the spending guideline, as the County confronted the COVID-19 pandemic and was able to revert more than $64 million to fund balance by fiscal year-end.

Figure 1. Budgetary Compliance with SAC Spending Guideline



SPENDING GUIDELINE

The Committee recommends that base spending growth not exceed 4.79%, bringing the recommended FY 2024 spending limit to $2,494.7 million.

The spending guideline for a given fiscal year is calculated by multiplying the previous fiscal year's estimated base spending level (as defined by the Committee) by the spending affordability growth factor (Figures 2 and 3). **For FY 2024, the Committee recommends that base spending not exceed $2,494,702,734, calculated by applying an estimated County personal income growth rate of 4.79% to FY 2023 base spending of $2,380,668,703.** This guideline allows for maximum spending growth of $114,034,031 over the FY 2023 budgeted base spending amount (Figure 4).

The Committee continued to utilize an average of annual personal income growth rates to determine its personal income growth factor.

For FY 2024, the Committee maintained its use of an average personal income growth rate as its measure of growth in the County's economy. The average is calculated from annual growth forecasts for the current and upcoming fiscal years and annual growth estimates for a designated number of preceding fiscal years. The FY 2024 growth factor is based on a 5-year (FY 2020 through FY 2024) blended average of County-level personal income forecasts by Sage Policy Group, Inc. and Moody's Analytics. Prior to FY 2010, in determining its growth factor, the Committee utilized a single-year forecast, applicable only to the upcoming fiscal year; from FY 2010 through FY 2017, the growth factor was based on a 5-year average that included three preceding fiscal years; and from FY 2018 through FY 2023, the growth factor was based on a 4-year average that included two preceding fiscal years.

The Committee uses an "estimated final spending" methodology to determine base-year spending.

Committee policy provides that base spending should reflect all approved and planned spending, less exclusions (see Figure 3), or in other words, "estimated final spending" for the current fiscal year. This methodology recognizes that certain adjustments in planned spending may occur after the budget is adopted. Such adjustments may include increases for supplemental appropriations or decreases due to planned expenditure reductions in response to detrimental economic events that are known or estimated prior to the adoption of the guideline.

Certain appropriations are not subject to the Committee's spending guideline because they do not represent ongoing County program obligations. For FY 2024, the Committee again approved excluding for guideline compliance purposes budgeted Retirement System and OPEB Trust Fund contributions in excess of planned actuarially-determined levels.

A budget's compliance with the spending guideline is determined by calculating the budget's base spending amount, which excludes certain appropriations, and by comparing it to the guideline amount. Appropriations that are one-time/non-recurring in nature (such as certain General Fund contributions to the Capital Budget) or that are required to support a State or federal program (such as local share matching appropriations) are excluded from the base spending amount. Similarly, appropriations that represent only a reserve of funds and not an earmarked expenditure, are excluded from base spending. Historically, the Committee's rationale for excluding certain appropriations has been that the growth in such appropriations should not be tied to growth in the County's economy but should instead be guided by some other factor, such as available surplus or projected revenues. Accordingly, such appropriations are not subject to the Committee's spending guideline (Figure 3). For FY 2023, and again for FY 2024, the Committee also was unanimous in its decision to exclude, for the purpose of assessing guideline compliance, appropriations above the planned actuarially determined contributions for its two retiree-related trust funds, the Pension Benefits Trust Fund and the Other Post-Employment Benefits (OPEB) Trust Fund.

Figure 2. Calculation of the Spending Guideline

The spending guideline for the upcoming fiscal year is calculated by applying the spending affordability growth factor to the current year's estimated base spending (as defined by the Committee - see Figure 3). Specifically, the recommended spending limit is calculated as follows:

	General Fund Operating Budget Appropriations (current fiscal year)
+	Supplemental Appropriations
-	Estimated General Fund Reversion due to detrimental economic events
-	Appropriations not subject to growth in personal income
	Base Spending (current fiscal year)
x	Personal Income Growth Factor
	Spending Guideline (upcoming fiscal year)

Figure 3. Spending Affordability Committee Definition of Base Spending

Base Spending: General Fund spending less appropriations not subject to personal income growth, as itemized below.

<u>Appropriations not subject to personal income growth:</u>

Local Matching Appropriations:

- Local Share—State and federal Grants. The total required County General Fund match for all anticipated grants is based on the level (and match provisions) of grant funding. These funds support State and federal programs (not County programs).

- Education—Federal/Restricted Program. The required County General Fund match for such funds in the Department of Education is similarly based on the level (and match provisions) of grant funding. These funds support federal or other restricted programs (not County programs).

Capital Project Appropriations:

- The General Fund contribution to the Capital Budget, if any, is determined annually based on funds that are available and not otherwise committed to supporting County services. Thus, such expenditures may be viewed as one-time outlays, not subject to personal income growth, provided these contributions are not dedicated to funding operating expenses.

Certain Reserve Fund Appropriations:

- Appropriations to the Revenue Stabilization Reserve Account (RSRA) do not represent expenditures but rather a reserve of funds available in case of an operating deficit. These funds are legally required to equal at least 10% of budgeted General Fund revenues (with an allowable temporary 7% floor).

- Contingency Reserve appropriations are excludable to the extent they represent a reserve for unforeseen needs (e.g., emergencies) and are not earmarked for a specific purpose or program unless the specific purpose or program meets one of the other criteria for exclusion. If Contingency Reserve funds are spent, the nature of the expenditure must be examined to determine its effect on base spending (i.e., one-time vs. ongoing).

One-Time-Only Appropriations:

- Specific exclusions for extraordinary or special items that represent one-time, non-recurring costs or revenues (such as spending by the Department of Education for items excluded from the State's maintenance of effort requirement) are determined on a year-to-year, case-by-case basis.

Appropriations to Bolster Funded Status of Retiree Trust Funds:

- Pension Benefits Trust Fund contributions above actuarially-recommended levels and OPEB Trust Fund contributions above actuarially-determined funding levels represent non-recurring commitments that are determined on a year-to-year, case-by-case basis.

Figure 4: FY 2024 Spending Guideline

FY 2023 General Fund Budget Appropriations	$ 2,661,687,195	
Supplemental Appropriations	-	
Total General Fund Budget Appropriations	2,661,687,195	
Estimated Final Spending	$ 2,661,687,195	(A)
General Fund Exclusions:		
Local Matching Appropriations		
Local Matching Funds	(11,582,370)	
Capital Project Appropriations		
PAYGO	(213,945,592)	
Reserve Fund Appropriations		
Contingency Reserve	(2,500,000)	
One-Time-Only Appropriations		
Funding for ERS Above Annual Required Contribution	(50,000,000)	
Primary Election Move to FY 2023	(1,939,780)	
Baltimore County Public Schools[1]	(1,050,750)	
Total Exclusions	(281,018,492)	(B)
Base Spending (A - B)	2,380,668,703	(C)
Personal Income Growth Factor	x 1.0479	(D)
FY 2024 Spending Guideline (C x D)	$ 2,494,702,734	
Maximum Growth in Base Spending	***$ 114,034,031***	

[1] Reflects one-time BCPS costs excluded from the State's maintenance of effort requirement.

SPENDING POLICY RECOMMENDATIONS

The Committee's policy recommendations are that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall occurs, that the County Executive avoid underfunding essential items, and that the budget minimize its reliance on one-time revenue sources to fund ongoing expenses.

The Committee reaffirmed its conservative fiscal policy recommendations, as follows:

- The Committee recommends that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall occurs. Accordingly, the Committee endorses the County's policy of requiring that the Revenue Stabilization Reserve Account (RSRA) equal 10% of budgeted General Fund revenues, and that the ratio of General Fund balance to revenues does not fall to the floor level of 7% for two consecutive years.
- The Committee recommends that the County Executive avoid underfunding essential operating budget items, including retiree healthcare, in order to fund other initiatives.
- The Committee recommends that the County Executive strive to submit a General Fund budget that minimizes reliance on one-time sources of funding, such as surplus funds, for ongoing operating expenses. For example, the Committee advises against using debt premium funds to offset debt service interest costs, noting that the avoidance of this practice would result in a lower financing cost for County debt, in addition to being a more sustainable budgeting practice.

The Committee's recommendations are designed to ensure that the County's General Fund budget is structurally balanced and fiscally sustainable.

These spending policy recommendations, along with the Committee's spending guideline (see pages 2-4) and usual review of General Fund revenues performance (see pages 10-11), are designed to ensure that the County's General Fund budget is structurally balanced and fiscally sustainable. Specifically, the reserve policy is designed to protect against unanticipated costs or revenue shortfalls. The underfunding policy is designed to ensure that essential costs are not deferred in a given budget year in order to incur new obligations, which when added to the full balance of existing obligations would be unaffordable. The one-time funding policy is designed to ensure that recurring costs are supportable by ongoing streams of revenue. Failure to abide by these recommendations can lead to structural budgetary imbalance, which is not sustainable over the long term.

In FY 2018 and FY 2019, revenue levels were insufficient to keep pace with both budgeted and off-budget recurring expenses. The budgetary decisions leading to this outcome constituted violations of the Committee's (non-binding) policy recommendations. The outcomes of the FY 2020 and FY 2021 budget years (due in part to pandemic-related savings) were to close the full gap between ongoing revenues and expenses. The FY 2022 budget again anticipated reliance on off-budget funding sources, though it is expected that the gap will be closed by both a revenue surplus and budget savings. The FY 2023 budget anticipated a further reduced reliance on off-budget funding sources.

After several years of budgetary non-compliance with the Committee's (non-binding) policy recommendations, the County's management practices resulted in a structural financial imbalance beginning in FY 2018. Specifically, in January 2019, audited FY 2018 data revealed that ongoing General Fund revenues were insufficient to fund the County's ongoing operating expenses (inclusive of both on-budget and off-budget recurring expenses). The structural financial imbalance persisted in FY 2019. Although the FY 2020 and FY 2021 adopted operating budgets did not anticipate a return to structural financial balance, FY 2020 and FY 2021 General Fund revenues exceeded ongoing operating expenses (inclusive of both on-budget and off-budget recurring expenses) due to an over-attainment of revenues and budget savings largely attributable to the pandemic. For FY 2022, base spending appropriations were slightly below the spending guideline level, but the adopted budget again suggested structural imbalance: specifically, in FY 2022, recurring off-budget commitments were estimated to total more than $60 million (the General Fund retiree healthcare contribution was more than $30 million underfunded based on the Administration's budget projections, and the General Fund budget did not cover $30 million in debt service interest costs that were paid using debt premium funds). Fortunately, a surplus in the Health Insurance Reserve Fund enabled the transfer of $54 million to the OPEB Trust Fund at the close of FY 2022. Although final FY 2022 figures are delayed, it is anticipated that FY 2022 revenues exceeded ongoing expenses. For FY 2023, base spending appropriations were again slightly below the spending guideline level, recurring off-budget debt service commitments (to be paid with debt premium) totaled more than $20 million, and recurring off-budget employee and retiree healthcare costs (to be paid from health insurance reserve and OPEB Trust Fund balances) totaled more than $10 million, based on projected claims costs.

The Administration has made progress in addressing the structural concerns that the Committee has raised, but additional action is necessary to bring about comprehensive correction. Areas of concern still include OPEB, debt service, and refuse disposal costs.

During the past several budget processes, the Administration has acknowledged the structural concerns raised by the Committee and has begun to address budgetary deviations from the Committee's policy recommendations. During the upcoming year, the Committee continues to urge the Administration to increase the comprehensiveness of its multi-year financial planning so that future budgets can be fully compliant with the Committee's policy recommendations. In addition to charting the County's course to bringing retiree healthcare costs entirely back into the General Fund budget (which was fully funding both current claims and accrued liability payments as recently as FY 2015), such enhanced planning should eliminate off-budget reliance on debt premium funds to pay debt service interest costs, and it should meet all of the County's other essential needs, including offsite refuse disposal at tonnages consistent with the County's 10-year solid waste management plan.

Ongoing revenues should be sufficient to fund estimated guideline expenses in FY 2023 and FY 2024. The Committee endorses the use of any excess revenues and/or General Fund surplus (above legally required and target levels) to seek improvement to the funded status of the Employees' Retirement System and to prevent any drawdown of the OPEB Trust Fund balance.

Ongoing County revenues again are projected to be sufficient to fund recurring expenses in FY 2024 (see pages 10-11). Consistent with Committee policy, any excess revenues and/or fund balance (above the spending guideline and/or sufficient reserve levels, respectively) should be used for one-time purposes such as PAYGO contributions to the Capital Budget. Additionally, consistent with the Committee's ongoing discussions regarding the funded status of the Employees' Retirement System (ERS), which is in the low sixties, percentage-wise, the Committee endorses the use of any excess fund balance (above legally required and target levels) to reduce the amount of the unfunded accrued liability. The Committee is aware that the budgetary consequence associated with having a lower funded status is having an annual required contribution that is pressured to increase significantly from year to year. In this respect, the County's General Fund portion of its annual required contribution has more than tripled since FY 2009, from less than $50 million to more than $150 million in FY 2023.

Because it is not the Committee's role to prescribe how the Executive should comply with the Committee's spending guideline, in light of the significant cost pressures both within and outside the General Fund budget, and in light of economic challenges including elevated inflation and rising interest rates, the Committee continues to urge fiscal restraint with the use of excess revenues and/or General Fund surplus. Accordingly, the Committee again approves, for guideline compliance purposes, the exclusion of appropriations above planned actuarially determined levels for both the Pension (ERS) and the OPEB Trust Funds. The Committee allows for such guideline exclusions in acknowledgement of the current Administration's commitment to ensuring solvency of both funds.

ECONOMIC GROWTH

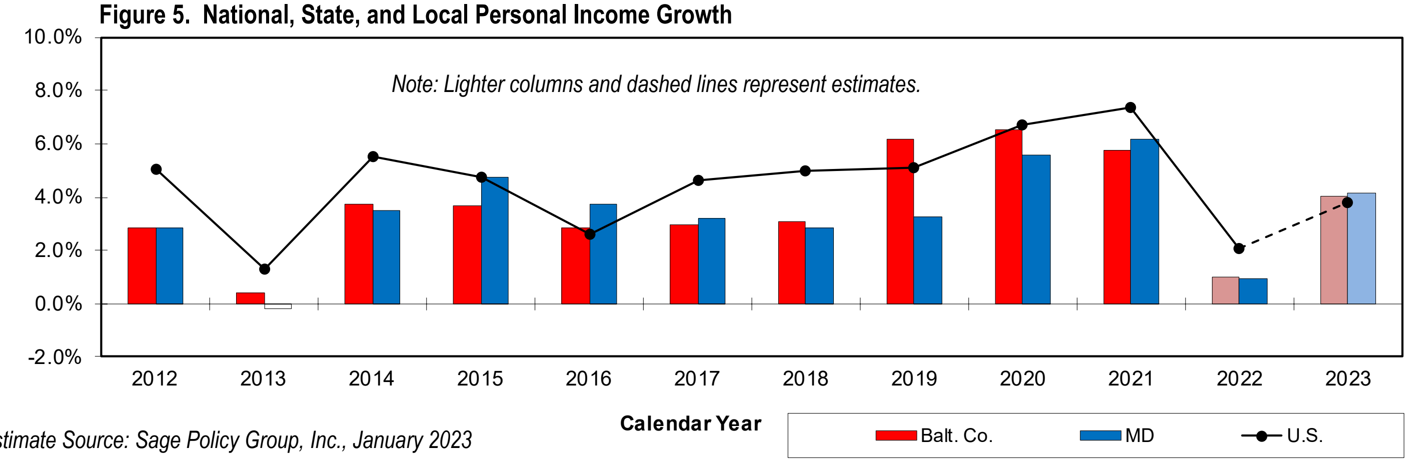
Personal income in the County is projected to increase by 3.84% in FY 2023 and by 3.27% in FY 2024. As explained on page 2, the Committee utilizes an average of annual personal income growth rates that includes multiple prior years to determine its personal income growth factor.

Prior to adopting a FY 2024 growth rate of 4.79%, based upon a 5-year (FY 2020-FY 2024) blended average of County-level personal income growth forecasts by Sage Policy Group, Inc. and Moody's Analytics, the Committee reviewed current and projected economic conditions to gain an understanding of the personal income estimates and local economic outlook. As of January 15, 2023, Sage Policy Group, Inc. predicts that in FY 2023, Baltimore County personal income will grow 3.84%, slightly below a 4.00% forecast for Maryland, following growth of 1.45% (estimated) and 1.58%, respectively, during FY 2022. Sage's FY 2023 personal income projection for the County is lower than the 4.12% growth projection from its prior forecast (dated October 15, 2022), marking increasing economic challenges and recessionary expectations. For FY 2024, Sage anticipates that personal income growth will decelerate in both the County (3.27%) and the State (3.32%). The Moody's forecast, dated December 2022, reflects baseline economic assumptions and is roughly a percentage point per year higher, on average, than the Sage forecast. Over the 2012 to 2021 period, County personal income grew at an average annual rate of 3.79%, compared to 3.57% in Maryland and 4.80% in the U.S. (Figure 5).

Baltimore County Economic Advisory Committee members expressed growing concern regarding the likelihood of a looming recession but noted that some sectors of the County's economy have continued to hold up relatively well.

The January 23, 2023 meeting of the Baltimore County Economic Advisory Committee (BCEAC) provided enhanced insight into local economic conditions. The BCEAC's economist noted that rooted, elevated inflation was the most salient part of economic life over the prior year, leading to challenges for most U.S. households. He noted that the Federal Reserve has worked aggressively to restrict inflation by increasing interest rates, and added that the full impact of these rate hikes will not be felt for many months. In spite of these challenges, the U.S. economy has continued to grow, and many sectors have held up well. Meanwhile, some sectors have continued to struggle, and certain previously-strong sectors, such as retail and housing, have either shown signs of slowing or have begun to slow. Despite efforts by the Federal Reserve to cool growth, the labor market continues to post strong gains. Such employment growth, paired with a shrunken labor force, has led to historically low unemployment rates. Within the real estate market, County home sales have contracted sharply, as rapidly rising interest rates curtail prospective buyers' spending power following years of near record-low rates. The Committee's residential real estate representative reported that many buyers are taking a wait-and-see approach and, conversely, many sellers are reluctant to list their homes or to reset their current mortgage interest rates. Committee members also reported that loan demand remains strong as businesses with excess cash on their balance sheets are seeking to make investments and noted several prominent development opportunities throughout the County.

Figure 5. National, State, and Local Personal Income Growth



Estimate Source: Sage Policy Group, Inc., January 2023

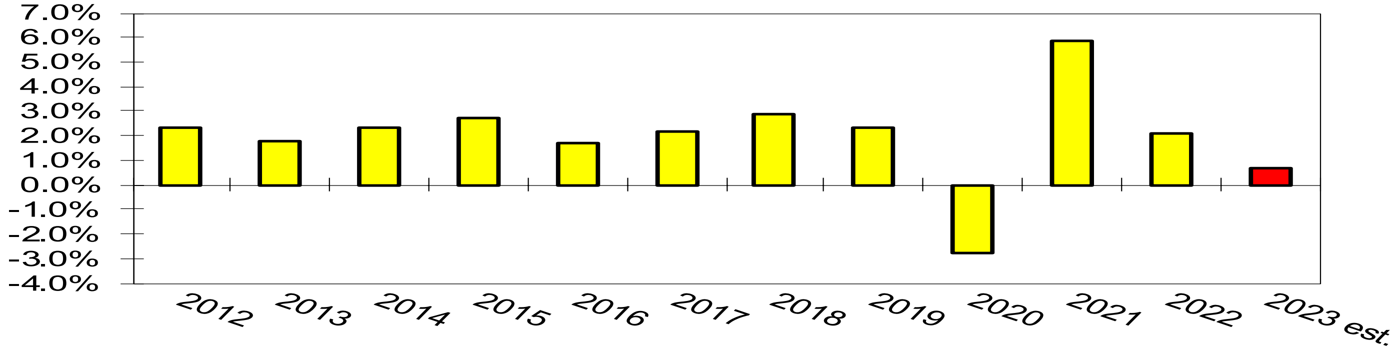
For CY 2023, real GDP is projected to increase by 0.7%, a deceleration from 2.1% growth in CY 2022, as the economy weathers several challenges through the year.

Projections for the local economy are influenced, to a large degree, by the underlying performance of the national and State economies. The pandemic period has resulted in a see-saw effect on the overall U.S. economy. After plunging into recession in the first half of CY 2020 and posting an overall negative rate for the full year, real Gross Domestic Product (GDP) rebounded strongly, growing at an annualized rate of 5.9% during CY 2021 (Figure 6). However, this rapid expansion did not occur without creating unintended challenges, namely inflation, and as a result, growth then began to cool. Most recently, GDP posted an annualized increase of 2.1% during CY 2022, and it is projected to decelerate further in CY 2023 to only 0.7% (according to the Federal Reserve Bank of Philadelphia's November 2022 *Survey of Professional Forecasters).* Over the last decade, real GDP grew by an average of 2.1% annually from CY 2013 to CY 2022. Consumer spending, which drove post-early-stage pandemic growth, slowed to 2.8% in CY 2022 after increasing by 8.3% in CY 2021, and it is primed to slow further as consumer confidence erodes and household savings are depleted due to inflationary pressure on the cost of everyday goods and services. A looming debt ceiling Congressional showdown could drive further contraction in consumer confidence and spending. Gross private investment, particularly in equipment and intellectual property products, has also slowed, as businesses seek to draw down inventories that were rapidly assembled to meet surging consumer demand and to combat global supply chain challenges.

Employment in the State and County posted solid growth during CY 2022 but still remains below pre-pandemic levels. Employment growth is expected to continue at a modest pace during CY 2023.

Following two consecutive years of annual job losses in the State, and a substantial drop followed by a slight increase in the County, employment accelerated in CY 2022 and has posted solid year-over-year gains for 18 consecutive months. Regionally, the labor market has performed exceptionally well in spite of inflation, largely attributable to new opportunities at Tradepoint Atlantic; however, overall growth has begun to cool of late, and the number of jobs the regional economy supports has dropped since the summer. After making progress toward recouping all of the jobs lost during the pandemic, the economy now supports 9,228 and 145,666 fewer jobs in the County and Maryland, respectively, as of December 2022 compared to the pre-pandemic high. Baltimore County's and Maryland's unemployment rates have fallen below their pre-pandemic lows, with both at 3.2% in December 2022. The unemployment rates in the County and Maryland averaged 4.0% for all of CY 2022. These falling unemployment rates are largely driven by reduced labor force participation. Most recently, in December 2022, the County and State labor forces provided 10,512 and 183,932 fewer workers, respectively, than they did during their pre-pandemic peaks, due at least in part to an exodus of older workers. For CY 2023, Sage Policy Group, Inc. projects that County and State employment will grow by 2.7% and 1.5%, respectively. Employment growth is expected to remain modest over the near term as the Federal Reserve works to cool the economy and combat inflation.

Figure 6. Real Gross Domestic Product: Annual Percentage



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, *November 2022*

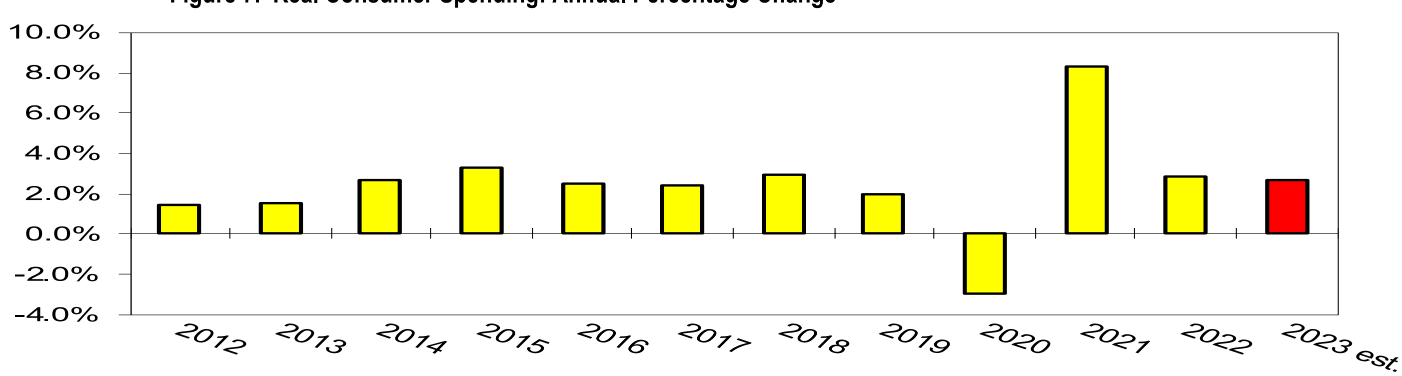
Consumer spending increased at a rate of 2.8% in CY 2022 following robust growth of 8.3% during CY 2021.

Consumer spending, which typically accounts for slightly more than two-thirds of all U.S. economic activity, is the primary determinant of future economic performance (Figure 7). As noted, consumer spending increased at a rate of 2.8% in CY 2022, reflecting modest growth, but a deceleration from an 8.3% increase during CY 2021. Most recently, in 2022:Q4, consumer spending increased at an annualized rate of 2.1%, a slight deceleration from 2.3% growth in the prior quarter. Consumer spending is expected to decelerate further in CY 2023. Consistent with the unsettled state of the economy, based on a survey of 5,000 U.S. households by the Conference Board, consumer confidence decreased in January 2023, following an increase in December 2022, with the "Expectations Index" responsible for the decrease, slightly moderated by an increase in the "Present Situation Index." The Conference Board reported that "consumers were less upbeat about the short-term outlook for jobs," and "expect business conditions to worsen in the near term," but "expect their incomes to remain relatively stable in the months ahead." In addition, "purchasing plans for autos and appliances held steady, but fewer consumers are planning to buy a home—new or existing." Further, the Conference Board reported that expectations for inflation over the next 12 months increased modestly, but noted that such expectations remain down from their June 2022 peak.

The U.S. economy remained resilient, posting solid growth during CY 2022 but faces several challenges on the horizon. The Committee's consultant expects a recession during the upcoming year that may be mild from a historical perspective but will nevertheless be noticeable in its local effects.

Broadly speaking, the U.S. economy has remained remarkably resilient following the pandemic-induced recession in early 2020 but faces a growing number of challenges in the near term. Inflation remains elevated and the Federal Reserve is expected to continue raising its interest rate target, likely at a reduced pace, to bring down inflation. Congress is facing a looming debt ceiling crisis and, should the U.S. default on its debt, an adverse, and largely unknown, impact on the economy would result. In addition, the housing market likely is already in a recession, construction activity and manufacturing have slowed, and consumer spending, which historically drives growth, is showing signs of a retreat. The Federal Reserve Bank of Philadelphia's November 2022 *Survey of Professional Forecasters* projects 4.2% unemployment during CY 2023, up from 3.7% in CY 2022, but still a relatively healthy rate. The *Survey* anticipates a modest deceleration in GDP growth during CY 2023, but expects accelerations in the following two years. These projections mirror the growing consensus that the U.S. economy is headed toward a recession during the upcoming year, albeit on a mild and brief scale. In this regard, the Committee's consultant stated, as of January 15, 2023, a U.S. economic recession is an underlying forecast assumption; even a mild recession would be associated with job loss, increased unemployment, financial market volatility, and additional pressure on the housing market. The consultant added that the pace of economic growth witnessed recently is unsustainable; the expected slowdown is likely to lead to moderated future personal income growth.

Figure 7. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, November 2022

GENERAL FUND REVENUES AND SURPLUS

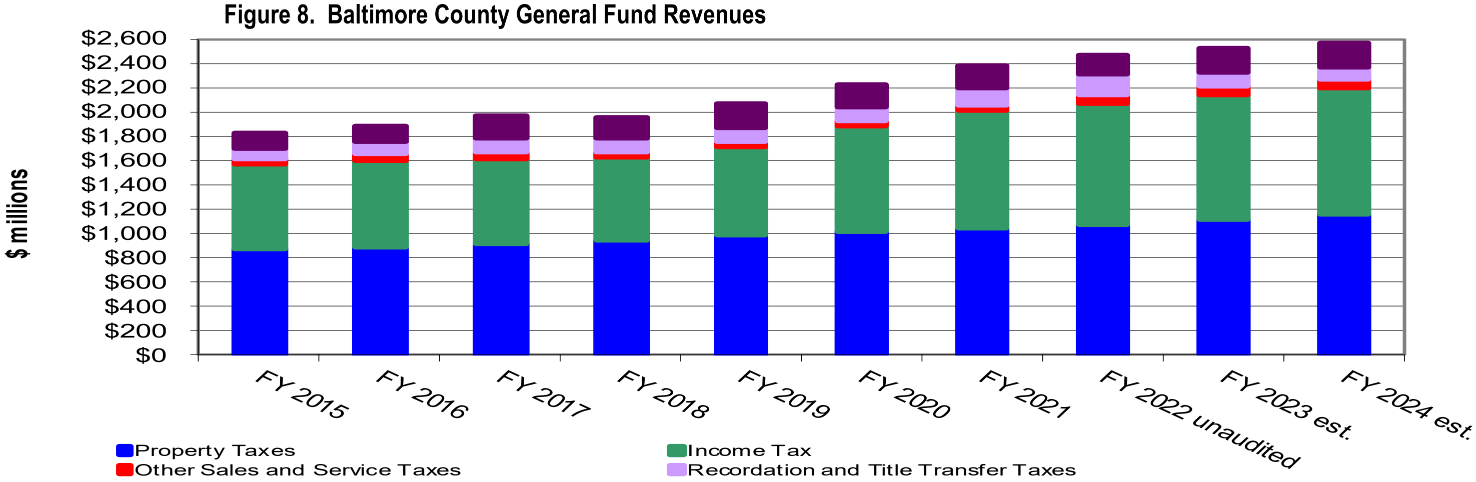
FY 2023 General Fund revenues are projected to increase by $52.2 million, or 2.1%, over FY 2022 totals.

FY 2023 projected revenues total $2,524.2 million, exceeding FY 2023 budgeted revenues by $28.1 million, or 1.1%, and reflecting an increase of $52.2 million, or 2.1%, over FY 2022 unaudited revenues (Figures 8 and 9). The increase primarily results from several complexities in FY 2023 income tax distributions received from the State, namely two significantly higher-than-usual distributions that are at least partially unrelated to underlying wage or job growth. Absent the unanticipated income tax distributions, as well as a $25 million one-time fund balance transfer from Baltimore County Public Schools (BCPS), FY 2023 revenue growth would be minimal—especially in light of solid FY 2022 revenue performance. Income tax revenues are projected to total $1,033.9 million in FY 2023, an increase of $39.0 million, or 3.9% over FY 2022 collections. Meanwhile, continued strong anticipated growth in property tax revenues of $33.9 million, or 3.2%, will serve to bolster the overall FY 2023 revenue position. However, largely due to interest rate hikes by the Federal Reserve to combat inflation, the housing market has sharply contracted; as a result, property-related transaction taxes are expected to total only $116.3 million, a decrease of $66.3 million, or 36.3%, from FY 2022 collections, constraining total FY 2023 revenue growth.

FY 2024 General Fund revenues are projected to increase by approximately $35.1 million, or 1.4%, over the current FY 2023 estimate.

FY 2024 General Fund revenues are projected to total $2,559.3 million, an increase of $35.1 million, or 1.4%, over the current FY 2023 revenue estimate, and up approximately $63.2 million, or 2.5%, from FY 2023 budgeted revenues. The FY 2024 projected increase is driven primarily by property tax revenues, which are expected to grow steadily for the tenth consecutive year with the State's recent reassessment of the County's central region. Specifically, projected property tax revenues total $1,151.8 million, an increase of $42.7 million, or 3.8%. The total projected increase is also supported by income tax revenue, which is anticipated to grow modestly, in part due to a significant volume of non-recurring distributions received during FY 2023 (noted previously). In addition, consistent with the analysis by the Committee's economic consultant that the County's labor market will slow as the U.S economy weathers an almost certain recession, more tepid withholdings growth is likely. Projected income tax revenue totals $1,043.3 million, an increase of $9.4 million, or 0.9%. Again constraining growth in FY 2024 are property-related transaction tax revenues, which are expected to post a further modest decrease as prospective homebuyers take a wait-and-see approach to mortgage interest rates. The FY 2024 revenue forecast also reflects the loss of the $25.0 million one-time BCPS transfer in FY 2023.

Figure 8. Baltimore County General Fund Revenues



Sources: FY 2013 to FY 2021 Baltimore County Annual Comprehensive Financial Reports ; Baltimore County Office of the County Auditor

Figure 9. General Fund Revenue Forecast, FY 2022-FY 2024

($ in Millions)

REVENUE SOURCE	FY 2022 Unaudited	FY 2023 Budget	FY 22 - FY 23 Bud.	FY 2023 Revised	FY 22 - FY 23 Rev.	FY 2024 Estimate	FY 23 Bud.- FY 24	**FY 23 Rev.- FY 24**
Property taxes	$1,075.2	$1,115.5	3.7%	$1,109.1	3.2%	$1,151.8	3.3%	3.8%
Income taxes	994.9	981.9	-1.3%	1,033.9	3.9%	1,043.3	6.3%	0.9%
Recordation & title transfer taxes	182.6	116.3	-36.3%	116.3	-36.3%	104.6	-10.1%	-10.1%
Other Sales and Service taxes	61.0	65.1	6.7%	62.6	2.6%	63.9	-1.8%	2.1%
Intergovernmental aid	44.3	50.1	13.1%	58.4	31.8%	60.7	21.2%	3.9%
Service charges	77.8	86.3	10.9%	62.0	-20.3%	62.0	-28.2%	0.0%
Licenses & permits	5.2	5.0	-3.8%	5.2	0.0%	5.2	4.0%	0.0%
Fines, forfeitures & penalties	4.4	3.9	-11.4%	4.4	0.0%	4.4	12.8%	0.0%
Interest on investments	1.8	17.3	861.1%	17.6	877.8%	36.7	112.1%	108.5%
Other	24.8	54.7	120.6%	54.7	120.6%	26.7	-51.2%	-51.2%
TOTAL	**$2,472.0**	**$2,496.1**	**1.0%**	**$2,524.2**	**2.1%**	**$2,559.3**	**2.5%**	**1.4%**

The FY 2024 revenue projection is $64.6 million above the Committee's recommended FY 2024 spending guideline.

Projected FY 2024 revenues exceed the Committee's recommended spending guideline by $64.6 million. The County's General Fund unassigned fund balance is expected to total $446.0 million as of June 30, 2022, not including $225.7 million in the Revenue Stabilization Reserve Account (RSRA). Together, these amounts represent $671.7 million, or 26.9% of FY 2023 budgeted General Fund revenues. These figures represent revenue totals taken from the County's financial system and are unaudited.

The FY 2022 surplus is expected to total $446.0 million, excluding $225.7 million in the RSRA.

The FY 2023 surplus is expected to total $284.6 million, excluding $249.6 million in the RSRA.

After appropriating an historic $213.9 million in one-time General Fund Pay-As-You-Go (PAYGO) Contributions to the Capital Budget, the projected June 30, 2023 budgetary surplus, assuming revenues of $2,524.2 million, no supplemental appropriations, and no actions by the Administration to revert appropriations and/or liquidate other funds, totals $284.6 million, or 11.4% of FY 2023 budgeted revenues (Figure 10). This amount does not include an estimated $249.6 million in the RSRA, or 10.0% of FY 2023 budgeted revenues. The FY 2023 adopted operating budget projected a FY 2023 budgetary surplus of $199.7 million, excluding a projected $249.6 million in the RSRA. The estimated unassigned surplus will be available as a source of funding for the FY 2024 budget.

Figure 10. Estimated General Fund Budgetary Surplus, FY 2023

		($ in Millions)
FY 2022 General Fund Budgetary Surplus (excluding RSRA funds)		**$ 446.0**
FY 2023 Revenue Estimate (per Adopted Budget)	2,496.1	
FY 2023 Revision	28.1	
FY 2023 Revised Revenue Estimate		2,524.2
FY 2023 Adopted Budget		(2,661.7)
FY 2023 Transfer to the RSRA		(23.9)
FY 2023 Estimated General Fund Budgetary Surplus		**$ 284.6**

DEBT GUIDELINES

The Committee adopts two debt guidelines, one pertaining to total debt outstanding and the other to debt service.

The Committee's debt affordability recommendations provide an enhanced system of checks and balances, further demonstrating the County's fiscal responsibility to its citizens, bond-rating agencies, and others in the financial community. The debt guidelines are based on: (1) the County's total debt outstanding as a percentage of total assessed property value, and (2) the County's level of debt service as a percentage of total General Fund revenues.

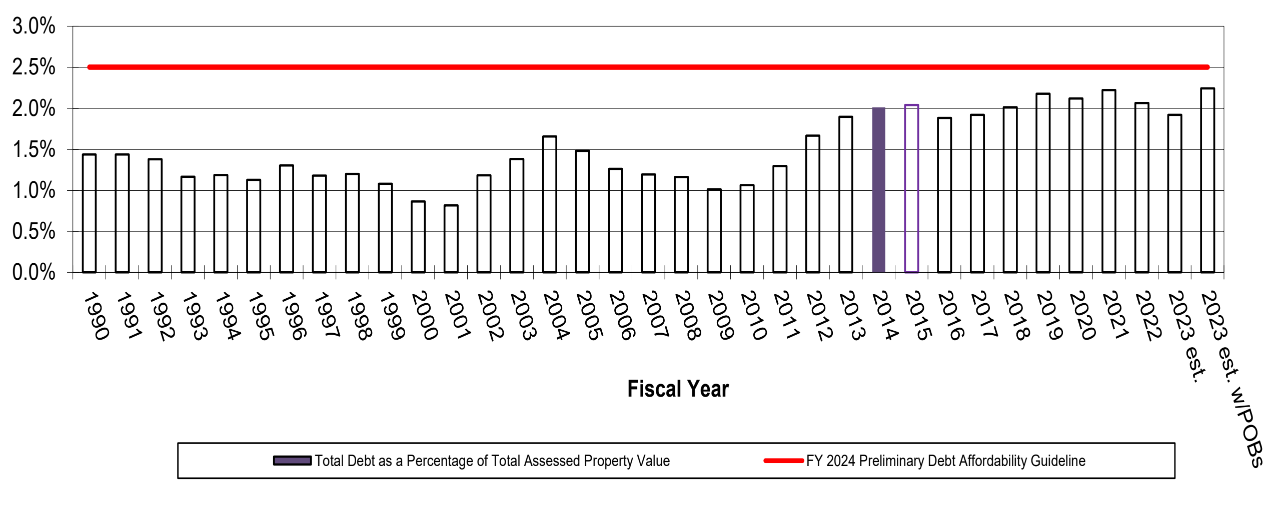
Based on the issuance of up to $70 million in new consolidated public improvement (CPI) debt during FY 2023 as authorized by Bill 68-22, the amounts of total debt outstanding and debt service expenditures are expected to continue to remain below both the Committee's and the Administration's guidelines through FY 2023.

Total Debt Outstanding Guideline

The Committee recommends that total debt outstanding not exceed $2,563,903,500, or 2.5% of total assessed property value of $102,556,140,000.

The ratio of total debt outstanding to total assessed property value is a measure of debt affordability. Total assessed property values have been steadily increasing due to rising home assessments as a result of rising home values. At the same time, the County's level of total debt outstanding has been decreasing in recent years, from $2.0 billion in 2021 to an estimated $1.9 billion in FY 2023. For FY 2023, the total debt outstanding ratio is estimated at 1.9%, a decrease from 2.1% in FY 2022. The inclusion of pension obligation bond (POB) debt, which is being shown for informational purposes only, would increase the ratio to 2.2% (Figure 11). The Committee's recommended limitation on total debt outstanding currently stands at 2.5% of total assessed property value. **Accordingly, the Committee recommends that total debt outstanding during FY 2024 not exceed $2,563,903,500, or 2.5% of total assessed property value of $102,556,140,000.**

Figure 11. Total Debt Outstanding as a Percentage of Total Assessed Property Value



Note: Excludes debt related to pension obligation bonds (POBs), Metropolitan District bonds, and component unit capital leases not budgeted under Primary Government except for FY 2023, which is shown (for informational purposes) with and without POBs, which were issued in Fiscal Years 1988, 2013, and 2017. FY 2023 ratio is an estimate.

Sources: Baltimore County Annual Comprehensive Financial Reports; Baltimore County Office of Budget and Finance; Maryland Department of Assessments and Taxation.

Debt Service Guideline

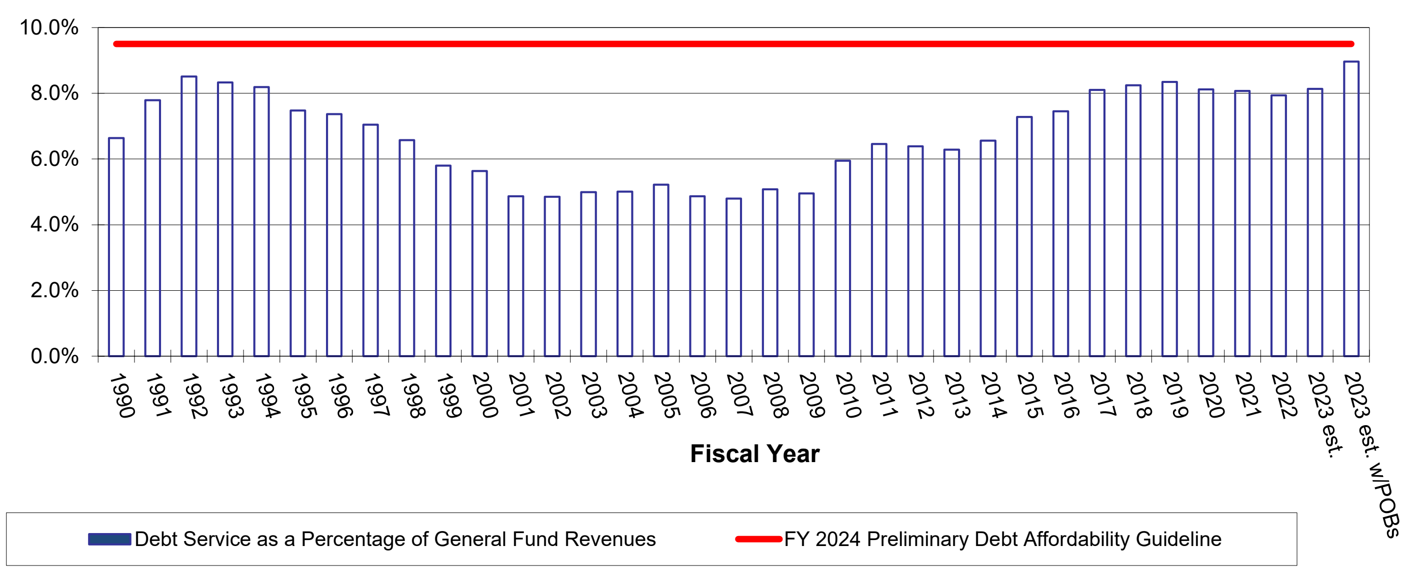
The Committee recommends that debt service not exceed $243.1 million, based on applying a 9.5% guideline to projected revenues totaling $2,559.3 million.

The ratio of debt service to total General Fund revenues is a debt affordability indicator used not only by Baltimore County but by many other jurisdictions. Credit analysts generally concur that a ratio higher than 1:10 (i.e., over 10%) suggests that the debt burden is too heavy. From FY 2013 until FY 2019, the ratio of the County debt service as a percentage of total General Fund revenues had been increasing steadily. The ratio then declined in fiscal years 2020 through 2022, largely a result of increased income tax collections. For FY 2023, this ratio is estimated to increase slightly to 8.1% as debt service increases while FY 2023 revenues are expected to increase at a lesser pace. The inclusion of Pension Obligation Bond (POB) debt, which is being shown for informational purposes only, would increase the ratio to 9.0% (Figure 12). The Committee's limitation on debt service currently stands at 9.5% of total General Fund revenues. **Accordingly, the Committee recommends that debt service expenditures for FY 2024 not exceed $243.1 million, based on projected revenues totaling $2,559.3 million.**

Budgeted debt service in recent years has not reflected the full amount of the County's debt service cost due to the use of debt premium funds to pay interest costs, which occurs off-budget. In recent years, the Committee has discouraged this practice, recommending that the County develop a plan to discontinue it.

The ratio of debt service to total General Fund revenues from FY 1990 to estimated FY 2023 is shown below in Figure 12. The decrease in this ratio, beginning in the mid-1990s, is not reflective of a reduction in County capital spending, but rather is the result of increased usage of PAYGO operating budget funds to finance the County's capital budget. Such PAYGO usage also allowed the ratio to remain steady, hovering at around 5%, from FY 2001 to FY 2009, despite a substantial capital budget over that period. As previously noted, prior to fiscal year 2020, the ratio had been rising steadily, largely a result of the aggressive capital program for school projects. Budgeted debt service in recent years has not reflected the full amount of the County's debt service cost due to the use of debt premium funds to pay interest costs, which has been managed off-budget.

Figure 12. Debt Service as a Percentage of Total General Fund Revenues



Note: Excludes debt service related to pension obligation bonds (POBs), Metropolitan District bonds, and component unit capital leases not budgeted under Primary Government except for FY 2023, which is shown (for informational purposes) with and without POBs, which were issued in Fiscal Years 1988, 2013, and 2017. FY 2023 ratio is an estimate.

Sources: Baltimore County budget documents; Baltimore County Annual Comprehensive Financial Reports; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor.